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ARTICLE APPEARED  
ON PAGE 1**Crude Estimate****Strength in Oil Prices  
Isn't Likely to Last,  
Many Analysts Think****Recent Rises Don't Reflect  
Much Gain in Demand;  
Barter Distorts Supplies****What the CIA Was Told**By YOUSSEF M. IBRAHIM  
And ALLANNA SULLIVAN

Staff Reporters of THE WALL STREET JOURNAL

When last January's meeting of the Organization of Petroleum Exporting Countries broke up in disarray, conventional wisdom in the international oil fraternity was that prices were heading for a slide.

Since then OPEC has surprised skeptics by seeming to enforce at least partial production discipline. Oil companies have drawn down inventories sharply, suggesting they must soon increase their purchases. And prices have gone up some 15% instead of down.

The conventional wisdom today: Prices are still heading for a slide. "The bleeding has stopped, but the patient hasn't recovered," says Lawrence Goldstein, the executive vice president of the New York-based Petroleum Industry Research Foundation.

Analysts and industry officials say the pressures that have pushed free-market prices for such bellwether crude oils as West Texas Intermediate to \$29.60 a barrel yesterday from a low of \$25.20 in January are only temporary. Says one forecast, produced by the Wall Street firm of Salomon Brothers Inc.: "We now see factors developing that are setting the stage for the next downturn."

**Advantages for Many**

If so, that is for the most part good news for the U.S. and other industrialized nations. Oil-price moderation has been a major restraint on inflation and interest rates, and more price weakness could help stretch out a slowing U.S. recovery, economists say.

Softening oil prices would also be good news for the strained international banking system and for big Third World debtors that still import substantial quantities of oil. For debtors that export oil, such as Mexico and Nigeria, the price news isn't good, but the interest-rate implications are.

Among the factors leading Salomon and others to expect lower prices are sluggish world oil demand, large amounts of bartered oil on the market, continued skepticism about whether OPEC members will stay within their production quotas, continuing increases in non-OPEC production, and the slowing rate of economic growth in the U.S.

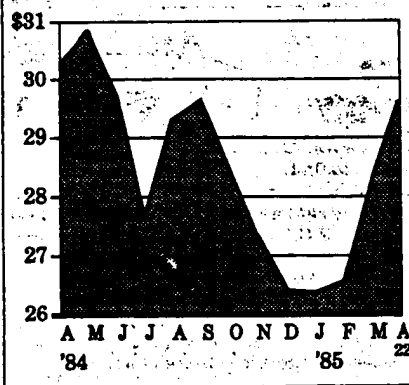
But if the outlook is that grim, how come prices are up, not down?

**Russian Supplies**

One answer is that the balance of supply and demand, if not as strong as producers might like, is much better than was expected a few months ago when OPEC seemed near collapse. "OPEC managed to keep prices from sliding over the cliff this winter," notes Robert Dederick, vice president and chief economist for Northern Trust Co. in Chicago.

OPEC had help.

A big drop in the delivery of Russian crude oil and refined oil products to Western Europe, induced by domestic shortages

**Trend in Oil Prices**Month-end spot price per barrel  
of West Texas Intermediate

and rough weather, cut supplies on the market for much of the winter. Last year, the Russians shipped member countries of the Organization for Economic Cooperation and Development as much as 2.3 million barrels a day of oil and products, according to the Paris-based International Energy Agency. But in the 1985 first quarter, Russian supplies to OECD fell to 1.8 million barrels a day.

On the demand side, an 11-month coal miners' strike led Britain to consume an extra 500,000 barrels of oil a day this past quarter to generate electricity.

And, paradoxically, industry expectations of lower oil prices have supported the current price bubble, says Philip Verleger, a consultant with Charles River Associates Inc. in Cambridge, Mass. Such expectations have kept inventories "lean and mean," he says, noting that "the real tightness during recent weeks has been for promptly delivered oil."

**Private**

(The squeeze pushed up crude oil futures prices yesterday, but many traders remained bearish for the longer term; see page 50. On page 6 is an article on prospects for increasing U.S. dependence on energy imports.)

Most market gurus don't think the strength in crude-oil prices can last. "We won't have a collapse overnight, but fundamentals say it would be hard to prevent an erosion over the course of the next year or two," says Adam Sieminski, an energy specialist at Washington Analysis Corp., a consulting firm in the capital.

That was also the consensus at a by-invitation-only meeting on the oil outlook sponsored by the Central Intelligence Agency two weeks ago. A panel of 14 experts from industry, Wall Street and think tanks answered questions from CIA and other government-agency analysts at the closed meeting.

Although opinions on the panel varied, the majority held that prices will decline during the next two to three years to \$23 to \$25 a barrel, before starting to gather strength by the 1990s. For the near-term, prices may remain firm until the summer, although there will be day-to-day fluctuations, panelists generally believed.

One reason for expectations of longer-term decline is that recent price increases don't seem to reflect a recovery in worldwide demand. The International Energy Agency estimated in its end-of-March monthly oil-market report that oil consumption in OECD nations was 2.3% lower in the 1984 fourth quarter than a year earlier. It was probably down about 2% in the first quarter also, the IEA said.

Several industry officials and large international traders also expect OPEC members to exceed their production quotas as the lure of larger oil income becomes irresistible.

Oil traders also say they are seeing an increase in exchanges of oil for other goods. As a major Houston-based trader notes, "Every barrel of bartered oil that works its way into the market ends by backing out some other oil."

Over the past few weeks, a considerable number of barter arrangements have been signed by Iran, Iraq, Libya and Algeria. Saudi Arabia is currently negotiating a giant swap with France to get 46 Mirage-2000 jets for \$2 billion of oil, or the equivalent of 70,000 barrels a day over three years. Although the Saudis have issued a vague denial of some aspects of the deal, they confirm that oil is under consideration as a method of payment for Mirages.

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Also contributing to price expectations have been recent Saudi oil sales that have put a cap on increases when prices topped official levels, which for Arab light oil (Saudi Arabia's major crude) is \$28 a barrel. "When crude supplies were tight last month," says Charles River's Mr. Verleger, "the Saudis sold 15 million to 20 million barrels out of the floating stocks they have established in the Caribbean and at Rotterdam."

Four years ago, when only about 5% of the world's oil supplies changed hands on the spot, or free, market, such sales would have had limited effects. But today, an estimated 40% to 50% of the world's oil is sold at spot-related prices. Moreover, contracts between oil producers and refiners, which used to stretch out a year or more, are much shorter now. Many don't survive sharp market swings, in any case.

Several analysts insist that a plunge in prices—and the undoing of OPEC—remains a possibility. Henry L. Wojtyla of Rosenkrantz, Ehrenkrantz, Lyon & Ross Inc. in New York contends that despite the current price recovery, the world has a lot more oil than it needs. He predicts that even with continued economic recovery, prices will drop \$3 or \$4 a barrel. But if the U.S. slides into recession, as Mr. Wojtyla expects late this year, he sees oil prices falling below \$20 a barrel.

Continued growth of non-OPEC production is one factor Mr. Wojtyla cites. Daily non-OPEC production is six million barrels a day higher than it was six years ago; this year the daily output is generally expected to rise about 800,000 barrels.

Some OPEC oil ministers, burned before by undue optimism over oil prices, are also wary despite the present strength. Earlier this month Algeria's oil minister, Belkacem Nabi, was quoted in the ruling-party publication El Moujahid as warning OPEC colleagues against being fooled by an "illusory" price rise into raising production and destabilizing the market again. A similar warning followed the next day from Kuwait's oil minister, Ali Khalifa al-Sabah.

Even should the U.S. economy continue to grow, it might not stimulate oil demand and support prices as much as such growth would have done in prior years. During the 1970s "there was a much tighter correlation between the growth of the economy and energy demand," says Dimitri Balatsos, a vice president at Manufacturers Hanover Trust Co. "That correlation is breaking down because much of the expansion has been in the high-tech area," which is less energy-intensive than manufacturing industries like steel and autos, Mr. Balatsos says. During the last two years, growth in the seven major industrialized countries picked up by about 5%, while energy demand edged up just 2.5%, he says.

ARTICLE APPEARED  
ON PAGE 7A

WASHINGTON TIMES  
15 April 1985

# Letters

## *Misidentified satellite*

A revision of my column failed to reach *The Washington Times* before it was published April 9 ("KAL 007 spy story refuted"). I want to correct a serious error in the unrevised version.

I had said that the "P. Q. Mann" article about KAL 007 published in *Defence Attache* magazine last year had mistakenly identified a weather satellite passing over KAL 007 as it approached Soviet territory as a Ferret spy satellite. The misidentification applied to an incident involving the penetration of East German airspace by two Air Force planes in 1964. The author had made much of this as a precedent for what he assumed to be the coordination of KAL's penetration of Soviet airspace and the overflight of a Ferret spy satellite in 1983.

A detailed discussion of this will be available in the next "AIM report," Accuracy in Media's newsletter.

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